

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
INDUSTRIAL DEVELOPMENT BONDS**

Meeting Date: August 27, 2008

Request for Approval of Initial and Final Resolution and Tax- Exempt Bond Allocation

Prepared by: *Deanna Hamelin*

Issuer:	California Municipal Finance Authority (CMFA)	Amount	\$4,100,000 TE
Borrower:	A.E. Company dba Arnold Engineering or an affiliate	Requested: Application No.:	08-0014
User:	A.E. Company dba Arnold Engineering or an affiliate	IR & FR No.:	08-0014
Location:	City of Corona (Riverside County)	Allocation Resolution No.:	08-0014A

Borrower/User/Background: A.E. Company dba Arnold Engineering (the “Borrower,” the “User,” and the “Company”) was incorporated in California on January 17, 1977. The Company is owned by two shareholders, Robert Arnold (80%) and Tricia Arnold (20%). Arnold Engineering manufactures complex fittings and assemblies for the aerospace industry. Its major customers include Spirit Aero Systems and aerospace manufacturers such as Boeing and Lockheed.

Project Information: Bond proceeds will be used to finance the equipment portion of the improvement and expansion plan for Arnold Engineering, which will enable the Company to expand its current production capacity to meet increasing demand for its products. The new equipment will include cutting tools, machine tools and accessories, and machinist precision measuring devices.

Anticipated Timeline: The acquisition and installation of the equipment began in March 2008 and is anticipated to be completed in the 3rd Quarter of 2008.

Prior Actions/Financing: None.

Statutory Criteria: 1) Public Benefits, 2) Relocation, and 3) Bond Issue Qualification: Staff awarded points based on its evaluation of the Project under CDLAC guidelines. Not all statutory criteria are part of the CDLAC point scheme.

PUBLIC BENEFITS: Consistent with CDLAC guidelines, staff awarded the Project a total of 36 verifiable points. Twenty-five of the 36 points assigned are based upon the creation of 206 additional jobs.

RELOCATION OF COMPANY OPERATIONS (No point evaluation required):

The Company will remain at its current location in the City of Corona.

QUALIFICATION OF BOND ISSUANCE (No point evaluation required): Based on the proposed finance structure and the application and other materials submitted to CIDFAC for the

Project, staff believes that the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Staff's final determination of qualification of the bonds will be subject to its review of the bond documents.

Status Of Permit/Other Required Approvals:

- On March 14, 2008, CMFA executed a Resolution of Official Intent to Issue Bonds in an amount not to exceed \$4,800,000 in tax-exempt IDBs for the Project.
- A TEFRA hearing was held by the City of Corona on June 4, 2008 for the issuance of the bonds in an amount not to exceed \$4,800,000.
- The City Council of the City of Corona approved the issuance of the bonds by the CMFA for the Project on June 4, 2008.
- The Project is an equipment only purchase, and therefore it does not require additional, discretionary permits.

Financing Details: The CMFA will issue the tax-exempt bonds on a private placement basis. GE Government Finance, Inc. (GEGF), which is a qualified institutional buyer (QIB) as defined by U.S. Securities and Exchange Commission (SEC) Rule 144A, will purchase the bonds. The bonds will:

- Be secured by the new equipment;
- Be used to pay off a taxable bridge loan from GEGF, which was issued in May 2008; and,
- Have a fixed interest rate at the time of closing based on the five-year, U.S. interest rate swap index.

The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a sophisticated investor as defined under SEC Rule 144A.
- The sophisticated investor must sign a "traveling" sophisticated investor letter, which will outline the requirements and restrictions and which will follow the bonds in the event the bonds are re-sold or traded at a later date.
- The security for the private placement debt must be collateral provided by the Borrower.
- The bonds will be issued in minimum denominations of \$250,000.

CIDFAC Fees:

In accordance with CIDFAC regulations¹, the Borrower has paid or will pay CIDFAC an application fee of \$1,250 and a closing fee of up to \$10,250.

Financing team:

Issuer: CMFA
Bond Counsel: Ronald Lee
Private Placement Purchaser: G.E. Government Finance, Inc.

Legal Questionnaire: Staff reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any

¹California Code of Regulations Title 10, Chapter 8, Article 3, §6070

information that raises questions concerning the financial viability or legal integrity of the Company.

Recommendation: Staff recommends approval of Initial and Final Resolution No. 08-0014 for an amount equal to \$4,100,000 in tax-exempt bonds and Allocation Resolution No. 08-0014A for an amount equal to \$4,100,000 in tax-exempt IDB allocation for the Issuer for the Project. Staff's recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel's opinion as set forth in Initial and Final Resolution No. 08-0014.

**ARNOLD ENGINEERING
COMPANY**

Bond Amount: \$4,100,000 TE

City of Corona (Riverside County)

Application No. 08-0014

August 27, 2008

STAFF SUMMARY – CIDFAC

Prepared by: *Deanna Hamelin*

ISSUE:

On behalf of A.E. Company dba Arnold Engineering or affiliates, the California Municipal Finance Authority (CMFA or the “Issuer”) requests approval of the Initial and Final Resolution No. 08-0014 for an amount equal to \$4,100,000 in tax-exempt bonds and Allocation Resolution No. 08-0014A for an amount equal to \$4,100,000 in tax-exempt IDB allocation. Bond proceeds will be used for the acquisition and installation of new equipment, including cutting tools, machine tools and accessories, and machinist precision measuring devices.

BORROWER/USER:

A.E. Company dba Arnold Engineering (the “Borrower” and “User”) was incorporated in California on January 17, 1977. The Company is owned by two shareholders, Robert Arnold (80%) and Tricia Arnold (20%). Arnold Engineering manufactures complex fittings and assemblies for the aerospace industry. Its major customers include Spirit Aero Systems and aerospace manufacturers such as Boeing and Lockheed.

Legal Questionnaire. Staff reviewed the Borrower’s/User’s responses to the questions contained in the Legal Status portion of the Application. The Company did not disclose any information that raises questions concerning the financial viability or legal integrity of the Company.

Prior Actions and Financings. None.

PROJECT INFORMATION:

Bond proceeds will be used to finance the equipment portion of the improvement and expansion plan for Arnold Engineering, which will enable the Company to expand its current production capacity to meet increasing demand for its products. The new equipment will include cutting tools, machine tools and accessories, and machinist precision measuring devices.

The following is an estimate of the application of the tax-exempt bond proceeds for the Project:

Acquisition and Installation	
Of New Equipment	\$4,000,000
Bond Issuance Expenses	\$100,000
Total:	<u>\$4,100,000</u>

Anticipated Timeline. The acquisition and installation of the equipment began in March 2008 and is anticipated to be completed in the 3rd Quarter of 2008.

Status Of Permit/Other Required Approvals:

- On March 14, 2008, CMFA executed a Resolution of Official Intent to Issue Bonds in an amount not to exceed \$4,800,000 in tax-exempt IDBs for the Project.
- A TEFRA hearing was held by the City of Corona on June 4, 2008 for the issuance of the bonds in an amount not to exceed \$4,800,000.
- The City Council of the City of Corona approved the issuance of the bonds by the CMFA for the Project on June 4, 2008.
- The proposed Project is an equipment-only purchase and, therefore, does not require additional, discretionary permits.

STATUTORY CRITERIA: 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. Staff awarded points based on its evaluation of the Project under CDLAC guidelines. Not all statutory criteria are part of the CDLAC point scheme.

- 1) **PUBLIC BENEFITS:** Staff assigned a total of 36 verifiable points to the Project as detailed below:

Community Economic Need (5 points):

Unemployment Rate of the Project Area (0 points): No points were awarded for the unemployment rate of the Project area. To earn points in this category, the unemployment rate in the Project area must be at least 125% of the statewide rate. The unemployment rate for this Project area is 83.3% of the statewide rate.

Poverty Rate of Project Area (0 points): No points were awarded for the poverty rate of the Project area. To earn points in this category, the poverty rate in the Project area must be at least 110% the statewide rate. The poverty rate for this Project area is 105.5% of the statewide rate.

Special Designation Area (0 points): The Project is not located in a special designation area.

Median Family Income (5 points): The Project is located in the City of Corona, census tract 415, where the average median family income is \$31,185. Given that the median family income for the State of California is \$53,025, the median family income for the Project area is 58.8% of the statewide average.

Employment Benefits (Job Creation and Retention = 25 points) The Company currently employs 101 direct, full-time employees. The Company anticipates creating 206 additional jobs within two years of the Project's completion, which translates into a ratio of one job for every \$19,902 in bond proceeds.

Agenda Item – 4.A.2.

Bond proceeds will be used for equipment purchases, which are an integral part of Arnold Engineering's overall growth strategy for the next three years. The Company provided the following information regarding its growth strategy:

Earlier this year, the Company hired over 40 additional people to address a \$46 million backlog in customer orders. Going forward, the Company will need to continue to increase its overall "spindle hours" available for machine parts to keep up with customer demand. The \$4 million equipment acquisition will allow the company's spindle hours by 3,600 per month. Later this year, the Company expects to hire approximately 50 additional workers, including machinists, engineers, quality control staff, and administrative staff, to address the additional workload capacity created by the new equipment. The Company also plan to add a fourth shift so that it will be able to operate 24hours/7days per week. It currently operates 24 hours/5 days per week.

In April 2009, the Company will not renew the third-party lease of some 40,000 square feet of its total 113,000 square foot facility. The Company plans to invest about \$300,000 to \$500,000 in capital improvements for this space and to relocate the quality control and assembly portions of the business to make room for more equipment in the main plant. As the Company moves from a Tier II to Tier I aerospace supplier, its customers are requiring Arnold to take on entire assemblies (meaning Arnold Engineering will machine several parts and then assemble them together). Thus, with the additional space for equipment, the company will likely add 30-40 assembly personnel. Additionally in 2009, Arnold will likely have a need to acquire \$4-\$6 million in additional equipment to keep pace with demand. Again, with the acquisition of additional equipment needed to increase spindle capacity, the Company will need to hire 50-60 new employees.

In 2010, Arnold Engineering anticipates it will need to acquire additional machinery to continue to accommodate growth. Again, the Company will need to hire 50-60 more people to address the increased spindle capacity.

Welfare-to-Work Plan (0 points): No information was provided indicating the Company's participation in a Welfare-to-Work program.

Health Care Benefits (1 point): The Company provided documentation that it contributes to the medical insurance for 98 of its 101 employees. The contribution translates into an average of \$117 per month toward the health care benefits for each employee. The uncovered employees opted out of the Company's health care plan for personal reasons. The Company will offer the same benefits to new employees after they complete a 90-day probation period.

Average Hourly Wage (5 points): The Company's average hourly wage is \$21.22, while the Metropolitan Statistical Area (MSA) for the City of Riverside/San Bernardino area has an average manufacturing wage of \$14.12. Therefore, the Company's average

hourly wage is 150% of the average manufacturing wage for the nearby metropolitan area.²

Land Use/Energy Efficiency/Public Transit Corridor (0 points):

Land Use (0 points): This Project does not involve the reuse of vacant land or abandoned buildings.

Energy Efficiency (0 points): The Borrower/User did not provide information regarding the Project's energy efficiency.

Public Transit Corridor (0 points): The Borrower/User did not provide information regarding the Project area's proximity to public transit.

Leveraging (0 points): This financing does not involve leveraging.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):**
The Company will remain at its current location in the City of Corona.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based on the proposed financial structure and the application and other materials submitted to CIDFAC for the proposed Project, staff believes that the bonds issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just, and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Staff's final determination of qualification of the bonds will be subject to staff's review of the bond documents.

FINANCING DETAILS:

The CMFA will issue a tax-exempt bond on a private placement basis. GE Government Finance, Inc. (GEGF), which is a qualified institutional buyer (QIB) as defined by the U.S. Securities and Exchange Commission (SEC) Rule 144A, will purchase the bond. The bond will:

- Be secured by the new equipment;
- Be used to pay off a taxable bridge loan from GEGF, which was issued in May 2008; and,
- Have a fixed interest rate at the time of closing based on the five-year, U.S. interest rate swap index.

The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a sophisticated investor as defined under SEC Rule 144A.

² The Project Area is located in the City of Corona. However, the Employment Development Department (EDD) Labor Market Information Division does not collect and publish manufacturing wage data for the City of Corona. Therefore, Staff used data from the closest and most comparable MSA, which is the Riverside/San Bernardino MSA.

- The sophisticated investor must sign a “traveling” sophisticated investor letter, which will outline the requirements and restrictions and which will follow the bonds in the event the bonds are re-sold or traded at a later date.
- The security of the private placement debt must be collateral provided by the Borrower.
- The bonds will be issued in minimum denominations of \$250,000.

CIDFAC FEES:

In accordance with CIDFAC regulations, the Borrower has paid or will pay CIDFAC an application fee of \$1,250 and a closing fee of up to \$10,250.³

FINANCING TEAM:

Issuer: CMFA

Bond Counsel: Ronald E. Lee

Private Placement Purchaser: G.E. Government Finance, Inc.

RECOMMENDATION:

Staff recommends approval of Initial and Final Resolution No. 08-0014 for an amount equal to \$4,100,000 in tax-exempt bonds and Allocation Resolution No. 08-0014A for an amount equal to \$4,100,000 in tax-exempt IDB allocation for the Issuer for the Project. Staff’s recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel’s opinion as set forth in Initial and Final Resolution No. 08-0014.

³ California Code of Regulations Title 10, Chapter 8, Article 3, §6070

INITIAL AND FINAL RESOLUTION
OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 08-0014

WHEREAS, the California Municipal Finance Authority (the “Applicant”) has transmitted the application of A.E. Company dba Arnold Engineering (the “Project Sponsor”) for the issuance of \$4,100,000 in tax-exempt bonds under the provisions of the California Industrial Development Financing Act, and has transmitted said application to the California Industrial Development Financing Advisory Commission (the “Commission”) and the information necessary to permit review of said application by the Commission, and has informed the Commission that it has adopted a resolution declaring its intention to issue such bonds and that the City of Corona has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Applicant; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the total principal amount of \$4,100,000; and

(b) use of the Project described in the application and the operation of the facility described in the application are reasonably necessary to prevent the relocation of substantial

operations of the Project Sponsor from an area within the State of California to an area outside of the State of California.

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) the Bond Counsel Opinion, when ready for execution, shall be submitted to Commission staff;

(b) the final legal documents, when ready for execution, shall be submitted to Commission staff for its review. Submitted documents shall include:

- (i) Indenture,
- (ii) Loan Agreement,
- (iii) Bond Purchase Contract,
- (iv) Official Statement,
- (v) Remarketing Agreement, and;

(vi) Tax Certificate and Agreement

(vii) Other documents which, in the opinion of Commission staff,
are necessary to the review of the transaction;

(c) the Commission staff shall determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which are based the findings under Section 2. above;

(d) the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(e) the Commission shall receive all applicable fees prior to the issuance of the bonds, unless the bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(f) the Project Sponsor agrees to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 08-0014A
RESOLUTION TRANSFERRING A PORTION OF THE 2008 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, that the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

WHEREAS, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

WHEREAS, the Commission has received an application (“Application”) from the California Municipal Finance Authority (“Applicant”) requesting a transfer to the Applicant of a portion of the 2008 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Procedures of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Procedures”)); and

WHEREAS, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

WHEREAS, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the

written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

WHEREAS, it is appropriate for the Commission to make a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

NOW, THEREFORE, the California Industrial Development Financing Advisory Commission resolves as follows:

Section 1. There will be a transfer to the Applicant an amount of the State Ceiling equal to \$4,100,000. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director and, if the Executive Director determines such modification to be material in light of the Commission’s Procedures, such modification shall require reconsideration by the Commission before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

Section 4. Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director.

Section 5. The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

Section 6. The potential Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director may extend this date by up to five (5) business days.

Section 7. Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the project or program, the date the Allocation was used, and the amount of the Allocation used.

Section 8. Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC a completed Report of Action Taken.

Section 9. Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date,

the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

Section 10. The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

Section 11. In consideration of the potential Allocation to be transferred to the Applicant and the Project Sponsor, the Applicant and the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 12. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

Section 13. This Resolution shall take effect upon its adoption.

EXHIBIT A

**RESOLUTION NO: 08-0014A
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: CMFA
2. Application No.: 08-0014
3. Project Sponsor: A.E. Company dba Arnold Engineering
4. Project User: A.E. Company dba Arnold Engineering
5. Project Name: Arnold Engineering Project
6. Address: 345 Cessna Circle, Suite 102
Location: Corona, CA 92880
County: Riverside County
7. Amount of Allocation: \$4,100,000
8. The Project Sponsor has represented that it reasonably expects the User will use its best efforts to achieve the creation of 206 additional, direct full-time positions within two years of the completion of the Project.